

Message Text

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TAGS: ECON, OECD

SUBJ: CONSULTATIONS ON PORTUGUESE TRADE MEASURES JULY 11

REFS: (A) USOECD PARIS 17299 (B) EDR(75)22

1. SECRETARIAT HAS RELEASED REFDOC AS BASIS FOR JULY 11 DISCUSSION IN EDRC OF GENERAL ECONOMIC CONTEXT IN WHICH TRADE MEASURES WERE TAKEN. PART I, WHICH GIVES BRIEF ASSESSMENT OF ECONOMIC TRENDS AND SUGGESTS MAIN ISSUES FOR DISCUSSION, IS TRANSMITTED BELOW (UNNECESSARY PARAS DELETED). PART II, WHEN RELEASED, WILL GIVE ADDITIONAL DATA ON ECONOMIC TRENDS AND POLICY MEASURES.

QUOTE

PART I

"I. GENERAL ASSESSMENT AND ISSUES FOR DISCUSSION

1. ACCORDING TO PRELIMINARY ESTIMATES BY THE
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SECRETARIAT, THE PRODUCTS SUBJECT TO THE SURCHARGES

REPRESENTED SOME 45 PERCENT OF TOTAL IMPORTS IN 1973(1). THE MEASURES ARE, THEREFORE, IMPORTANT BUT THE PRESENT CURRENT EXTERNAL DEFICIT OF PORTUGAL IS SIZEABLE. THE NOTE SUBMITTED BY THE DELEGATION ESTIMATES THE CURRENT DEFICIT AT 6 PERCENT OF GNP IN 1974 AND BETWEEN 7 AND 12 PERCENT IN 1975 (DEPENDING ON POLICY MEASURES) ALTHOUGH ECONOMIC ACTIVITY FELL IN THE COURSE OF LAST YEAR AND IS EXPECTED TO DECLINE FURTHER IN 1975. THE RANGE OF ESTIMATES FOR 1975 GIVEN IN TABLE X OF THE PORTUGUESE NOTE DOES NOT SEEM UNREALISTIC: A TRADE DEFICIT FOB/FOB OF BETWEEN \$2 BILLION AND \$2,7 BILLION AND A CURRENT ACCOUNT DEFICIT OF BETWEEN \$1 AND \$1,7 BILLION. CUSTOMS DATA SHOW A TRADE DEFICIT (CIF/FOB) OF ABOUT \$1,4 BILLION FOR THE SIX MONTHS TO MARCH 1975. RECENT INDICATORS, DISCUSSED IN PART II OF THE PRESENT DOCUMENT, POINT TO A DECLINE OF INVISIBLE RECEIPTS; AND THE OVERALL EXTERNAL DEFICIT FROM JANUARY 1ST TO MAY 20TH 1975 WAS ABOUT \$550 MILLION.

2. THERE ARE SEVERAL CAUSES FOR THE DETERIORATION OF THE BALANCE OF PAYMENTS. THE FOLLOWING ARE NOT DIRECTLY LINKED TO THE MORE RECENT ECONOMIC AND OTHER DEVELOPMENTS INSIDE PORTUGAL:

(A) CERTAIN STRUCTURAL WEAKNESSES OF THE ECONOMY DESCRIBED IN THE NOTE OF THE DELEGATION AND IN EARLIER OECD SURVEYS. AN IMPORTANT CASE IS A BACKWARD AGRICULTURAL SECTOR WHICH GAVE RISE TO A STEADY, CONSIDERABLE INCREASE IN IMPORTS OF BASIC FOOD PRODUCTS AND ANIMAL FEED. THE RISE IN WORLD PRICES HAS PUSHED UP FURTHER THE VALUE OF THESE IMPORTS; THIS SHOULD INCREASE AGAIN SUBSTANTIALLY IN 1975 ACCORDING TO THE PORTUGUESE NOTE (TABLE VI).

(B) THE DETERIORATION OF THE TERMS OF TRADE RESULTING FROM THE PRICE INCREASES OF OIL AND RAW MATERIALS, BUT ALSO OF OTHER IMPORTS. IT SHOULD BE NOTED THAT, SINCE EXPORTS ACCOUNTED FOR ROUGHLY 60 PERCENT OF THE VALUE OF IMPORTS

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IN 1972 AND 1973, THE SAME PERCENTAGE INCREASE OF EXPORT AND IMPORT PRICES WOULD IMPLY AN APPRECIABLE RISE IN THE TRADE DEFICIT.

(C) THE MULTIPLE AND IMPORTANT EFFECTS OF THE WORLD RECESSION - NOTABLY, REDUCED FOREIGN DEMAND FOR PORTUGUESE EXPORTS AND UNFAVOURABLE INFLUENCES BOTH ON TOURISM AND EMIGRANTS'

REMITTANCES. THE LAST EFFECT MAY HAVE BEEN
TEMPORARILY DAMPENED BY ACCUMULATED SAVINGS
BEING BROUGHT BACK BY WORKERS RETURNING FROM
ABROAD.

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(D) IT IS POSSIBLE THAT THE REDUCTION IN THE VOLUME
OF TRANSACTIONS WITH THE FORMER COLONIES HAD
SOME UNFAVOURABLE EFFECTS ON PORTUGAL'S BALANCE
OF PAYMENTS, BUT THERE ARE HARDLY ANY DATA IN
THIS FIELD. IN THE MEDIUM-TERM, THE ELIMINA-
TION OF MILITARY EXPENDITURE OVERSEAS WILL
REMOVE AN IMPORTANT DRAIN ON NATIONAL RESOURCES.
HOWEVER, THE NET EFFECT OF THE INDEPENDENCE OF
THESE TERRITORIES ON PORTUGAL'S BALANCE OF PAY-
MENTS CANNOT BE ESTIMATED WITHOUT DETAILED
STUDY.

3. DOMESTIC DEVELOPMENTS HAVE ALSO INFLUENCED, OF COURSE, THE BALANCE OF PAYMENTS. IT MAY BE USEFUL TO GROUP THEM UNDER THREE HEADINGS: SUPPLY, PRICE AND EXPECTATIONS EFFECTS.

(A) THERE IS EVIDENCE OF DISRUPTIONS IN THE PRO-
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DUCTION PROCESS. DECLARED STRIKES IN INDUSTRY MAY NOT BE MORE FREQUENT THAN IN SEVERAL OTHER COUNTRIES IN EUROPE, BUT VARIOUS FORMS OF WORKERS' PROTEST MOVEMENTS AND THE PROBLEMS OF CHANGE IN NATIONALISED FIRMS SEEM TO HAVE AFFECTED PRODUCTION LEVELS. IT IS IMPOSSIBLE TO QUANTIFY SUCH EFFECTS, BUT THEY MAY BE SIGNIFICANT BOTH IN EXPORT INDUSTRIES AND IN IMPORT-COMPETING SECTORS. THIS PHENOMENON MAY ACCOUNT FOR PART OF THE INCREASE IN THE TRADE DEFICIT, AND EXPLAIN TO SOME EXTENT WHY, APPARENTLY, NON-FARM OUTPUT DECLINED MORE THAN COULD BE EXPECTED FROM THE TREND OF REAL DOMESTIC DEMAND. A SIMILAR QUESTION ARISES WITH REGARD TO AGRICULTURE. EXPROPRIATION OF LARGE HOLDINGS WAS DECREED, BUT IT IS NOT KNOWN WHETHER NEW INSTITUTIONAL ARRANGEMENTS ARE BEING PUT IN PLACE QUICKLY ENOUGH TO PREVENT DISRUPTIONS IN PRODUCTION.

(B) THE HIGH RATE OF INFLATION WILL UNDOUBTEDLY AFFECT THE BALANCE OF PAYMENTS, BUT IT IS DIFFICULT TO FIND HARD EVIDENCE ABOUT THE EFFECTS ALREADY PRODUCED. AS DESCRIBED IN PART II OF THIS NOTE, CONSUMER PRICES ROSE BY ABOUT 25 PERCENT OVER THE TWELVE MONTHS TO LAST APRIL; AND WAGE RATES INCREASED BY SOME 40 PERCENT DURING 1974, THOUGH WAGE LEVEL DIFFERENTIALS WITH INDUSTRIALISED COUNTRIES REMAIN IMPORTANT. IT IS NOT CLEAR WHETHER LOSS OF PRICE COMPETITIVENESS IS ALREADY HINDERING EXPORTS. BUT THE SCOPE OF THE IMPORT SURCHARGES ITSELF SUGGESTS THE EXISTENCE OF A GENERAL PRICE PROBLEM. IN FACT, THE SURCHARGES CONCERN A WIDE RANGE OF "NON-ESSENTIAL" CONSUMER GOODS, BUT ALSO MANY SEMI-FINISHED PRODUCTS AND OTHER INPUTS FOR DOMESTIC OUTPUT, INCLUDING CERTAIN CAPITAL GOODS.

(C) THE EFFECTS OF EXPECTATIONS AND GENERAL UNCERTAINTIES ON THE BALANCE OF PAYMENTS ARE IN THE
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PRESENT CIRCUMSTANCES, MOST PROBABLY, CONSIDER-
ABLE. THERE IS CLEAR EVIDENCE OF SUCH EFFECTS
ON TOURISM AND ON THE FLOW OF EMIGRANTS'
REMITTANCES. JUDGING FROM SIMILAR EXPERIENCES
ELSEWHERE, IT WOULD SEEM PLAUSIBLE THAT ORDERS
FOR IMPORTED GOODS MAY HAVE BEEN ACCELERATED IN
ANTICIPATION OF POSSIBLE RESTRICTIONS ON
IMPORTS OR MEASURES INCREASING THEIR COST.
UNCERTAINTIES MUST ALSO HAVE INFLUENCED THE
CAPITAL ACCOUNT IN MANY WAYS: FOREIGN DIRECT
INVESTMENT MUST HAVE BEEN AFFECTED AT LEAST AS
MUCH AS INVESTMENT OF RESIDENTS BY DOUBTS CON-
CERNING THE "RULES OF THE GAME"; REPATRIATION
OF EXPORT PROCEEDS MAY HAVE BEEN DELAYED; AND
IT WOULD NOT BE SURPRISING IF OTHER FORMS OF
DISGUISED CAPITAL EXPORTS WERE TAKING PLACE,
INCLUDING OVER-INVOICING OF IMPORTS.

MAIN ISSUES FOR DISCUSSION

4. THE COMMITTEE WILL PROBABLY WISH TO ASK THE PORTU-
GUESE EXPERTS FOR ESTIMATES OF THE EFFECTS OF THE IMPORT
SURCHARGES ON THE VOLUME OF IMPORTS AND ON DOMESTIC
PRICES; AND WHETHER THESE MEASURES ARE LIKELY TO HAVE

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ANY SIGNIFICANT EFFECTS ON DOMESTIC OUTPUT AND EMPLOYMENT.

5. THE COMMITTEE MAY ALSO EXAMINE, WITH THE HELP OF THE PORTUGUESE DELEGATES, THE FOLLOWING PROPOSITIONS: IN VIEW OF THE RECENT DEVELOPMENTS IN THE BALANCE OF PAYMENTS, SOME MEASURES OF THE GENERAL TYPE AND SCOPE OF THOSE TAKEN SEEM INEVITABLE; BUT THEY CANNOT BE SUFFICIENT TO SOLVE THE COUNTRY'S PRESENT ECONOMIC PROBLEMS, INCLUDING THE PROBLEM OF THE BALANCE OF PAYMENTS. ANY ACTION THAT CAN HELP TO RESTORE NORMAL RATES OF PRODUCTION, TO DAMPEN THE PRICE-WAGE SPIRAL, AND MOST IMPORTANT, TO REDUCE THE PRESENT DEGREE OF UNCERTAINTY WILL SERVE BOTH THE DOMESTIC PRODUCTION AND EMPLOYMENT OBJECTIVES AND THE BALANCE OF PAYMENTS SITUATION. THE PORTUGUESE DELEGATES MAY WISH TO INFORM THE COMMITTEE OF THE FOLLOWING:

(A) WHAT MEASURES ARE ENVISAGED, APART FROM
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INCREASES IN PUBLIC INVESTMENT, TO PROMOTE A RECOVERY IN PRODUCTION AND TO FORESTALL A FURTHER RISE OF UNEMPLOYMENT IN 1975?

(B) WHAT TYPE OF ACTION, IN THEIR OPINION, COULD PREVENT THE RECENT WAGE INCREASES BEING ERODED BY INFLATION?

(C) IS IT LIKELY THAT THE PROCESS OF INSTITUTIONAL REFORMS WILL BE COMPLETED, AND THE RESPECTIVE ROLES OF NATIONALISED AND PRIVATE ENTERPRISES CLEARLY DEFINED, IN THE NEAR FUTURE?

6. IT WILL BE GENERALLY AGREED THAT THE CURRENT EXTERNAL SURPLUS WHICH PORTUGAL RECORDED IN THE PAST WAS ANOMALOUS (IT MEANT A TRANSFER OF REAL RESOURCES TO ABROAD, LARGELY TO COUNTRIES WITH MUCH HIGHER STANDARDS

OF LIVING), BUT THAT THE PRESENT CURRENT DEFICIT MUST BE BROUGHT DOWN TO A REASONABLY MODERATE LEVEL THAT COULD BE FINANCED BY LONG-TERM CAPITAL INFLOWS. THE PORTUGUESE EXPERTS MAY WISH TO COMMENT ON THE NEEDS FOR EXTERNAL FINANCE UNTIL THE OBJECTIVE OF REDUCING THE CURRENT DEFICIT TO ACCEPTABLE PROPORTIONS IS ATTAINED AND ON THE APPROPRIATE METHODS OF UTILISING, TO A REASONABLE EXTENT, THE EXISTING STOCK OF GOLD.

FOOTNOTE FOR I., PARA. 1:

(1) AROUND 36 PERCENT OF 1973 IMPORTS ARE SUBJECT TO THE 20 PERCENT SURCHARGE AND ABOUT 9 PERCENT TO THE 30 PERCENT SURCHARGE. IT IS EXPECTED THAT THE PORTUGUESE DELEGATION WILL PROVIDE MORE DETAILED INFORMATION."

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